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C O N F I D E N T I A L SECTION 01 OF 02 ISTANBUL 001933

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TAGS: [PGOV](#) [ECON](#) [TU](#)

SUBJECT: ISTANBUL'S MARKET ANALYSTS COME TO TERMS WITH  
PROSPECT OF AK

REF: A. ANKARA 7631

[1](#)B. ANKARA 7681

[1](#)C. ANKARA 7549

[1](#)D. ISTANBUL 1923

Classified By: Consul General David Arnett. Reasons: 1.5 (b) and (d).

[1](#)1. (C) Summary: While much of Istanbul's secular establishment remains wary and suspicious of Recep Tayyip Erdogan's Justice and Development (AK) party, soundings among market insiders in Istanbul on the eve of Sunday's polls show a more nuanced view among the city's business elite. In contrast to the doom and gloom scenarios we heard earlier this fall from market analysts who saw anything but a Kemal Dervis-led post-election economic team as a catastrophe that would swiftly lead to an economic meltdown, markets are increasingly coming to terms with an AK government. The decline in political uncertainty will likely help the current market rally. But we have also heard concerns with the economic policies of the new government, and with some of the likely AK economic policy-makers. We believe that following elections, and a short honeymoon, these concerns will start to grow. End Summary.

[1](#)2. (C) Watchful Waiting: As ref B related, Istanbul's secular establishment is resigned to the prospect of an AK victory in Sunday's election, but remains deeply troubled about what it bodes for the future of Turkey's secular republic. Surprisingly, however, given their worries earlier this fall and their tendency at that time to see former Minister of State Kemal Dervis as the Turkish economy's only potential savior, Istanbul financial circles now appear to be increasingly at ease with the prospect of AK's coming to power. Analysts such as Global Director of Research Cem Akyurek and Garanti Securities Executive Director David Edgerly now indicate that an AK victory will not preclude a short-term market rally, and can potentially even lead to a "virtuous circle" in which interest rates decline and ease the risk of a Turkish financing gap next year. Testimony to the Istanbul financial community's coming to terms with the prospect of AK are the recent performance of major market indicators: the Istanbul Stock exchange and interest rates have all remained relatively stable, even in the face of occasional gaffes by Erdogan and his deputies. The market's tolerant attitude has been, in the words of one banker, that "better they make these mistakes before the election, than after, when they might cause real trouble."

[1](#)3. (C) "Market Friendly": Beyond the need to put the best face on what appears to be inevitable, a number of factors appear to be at play in the financial community's attitude toward AK. Many believe (as Edgerly told us) "philosophically AK is market friendly," and by nature and inclination will be supportive of the securities market (though perhaps "less so" of debt markets). A second factor is the market's ever-present hope for stability, and desire to avoid uncertainty, and the resultant genuine attractiveness of the prospect of a strong or at most two-party government, even if it involves an untested player like AK. Perhaps most importantly, there is also the hope that AK understands that its economic options are limited, and that it has no alternative to continuing to implement the country's economic reform program. We heard this repeatedly: from bankers, securities firms, and businessmen in the real sector. They argued that "AK is not stupid" and will stick with the program, since it has no alternative, and since it will want to show it can govern responsibly. (Comment: Some AK Economic officials, such as Vice Chairman Ali Coskun, do not seem concerned that they have no alternative, per ref d.) Dissent came only from the influential TUSIAD, where Deputy Secretary General Umit Ismen reminded us of a board member's

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admonition to "remember that we are viewing things rationally, while politics does not always follow those rules."

[1](#)4. (C) A Weak Bench?: A more widespread concern in business

circles here is whether AK has the economic bench strength to manage a complex economic challenge. There is thus worry about how sustainable any stability provided by an AK government will be. Global's Cem Akyurek told us recently that the answers to two questions he had recently suggested that a New York colleague ask a visiting AK delegation had only reinforced his skepticism about the party. When under questioning the AK speaker indicated that he had been a REFAH supporter and that his business experience consisted of a brief stint in the textile industry, Akyurek's doubts were confirmed. "These are not the people who can solve Turkey's problems," he argued. There is some indication, however, that AK's ability to move beyond its base and attract other center-right wing supporters is easing this concern.

15. (C) Weak Opposition: Above all, AK is benefiting from its opposition. To be sure, Dervis and his Republican People's Party (CHP) allies remain the market's preference, though disappointment is widespread that he has not been more effective politically. Dervis' recent Radikal interview, which Ismen characterized as the "talk of the town," appears to have done particular damage, reinforcing his "statist" image and leaving a bad taste even among his business backers, particularly with his claim never to have supported the privatization of Turk Telecom. AK has also benefited from comparison to the other two parties that now appear to have a chance to cross the threshold: Cem Uzan's Genc (Youth) Party and Tansu Ciller's DYP (ref c). In contrast to these two parties' populist promises and (in Ciller's case) "stubborn refusal to learn from past mistakes" (by pledging to return to a managed exchange rate), AK's campaign has seemed "relatively responsible" in comparison. Hence Dervis' charges that the party is using different messages for different audiences has not resonated, as observers accept it as part of politics, and in any case see AK's domestic promises as much less dangerous than those of its rivals. "Hurriyet" economic commentator Ege Cansen, for instance, suggested recently in his column that Uzan is the pivotal figure of this election, and that his most nefarious effect has been to cause Ciller to adopt a similarly "pandering" message. Amplifying on these comments at a recent dinner for visiting Johns Hopkins professor Francis Fukuyama, he saw a particular danger in these "negative political influences" and the possibility they might impel Erdogan to adopt similar policies.

16. (C) Comment: Beyond making a virtue of necessity, financial markets will likely be cautiously optimistic following elections, on the back of declining political uncertainty. But at some point in the government formation process, the concerns we are already hearing about likely GOT policies (and about some of the likely AK policymakers) could start to grow quickly. End Comment.  
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